

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6675

BILL NUMBER: SB 583

DATE PREPARED: Jan 18, 1999

BILL AMENDED:

SUBJECT: Elimination of School General Fund and Transportation Fund Levies.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill eliminates the authority of a school corporation to impose a General Fund property tax levy for the general operation and maintenance of the school corporation, and eliminates the authority of a school corporation to impose a Transportation Fund property tax levy beginning in CY 2000. It terminates the authority of: (1) Lake County to impose a property tax for a County Supplemental School Distribution Fund; (2) Dearborn County to impose a property tax for a County School Distribution Fund; and (3) a school corporation in Lake County to impose a property tax for a Supplemental School Operating Reserve Fund.

The bill continues the authority of a school corporation to impose a property tax levy for certain public libraries, nursery schools, historical societies, art associations, cultural institutions, public playgrounds, and the Children's Museum in Marion County.

This bill provides an alternate method for calculating the amount of financial institution taxes and auto excise taxes to be distributed to school corporations after the elimination of the school General and Transportation Fund property taxes.

This bill also recodifies provisions of current law concerning emergency loans to school corporations and the duty of a school corporation to raise sufficient property tax revenues to repay outstanding bonds and other debt payable from the Capital Projects Fund, or Debt Service Fund.

This bill allows school corporations to transfer money between the school General Fund and the school Transportation Fund.

This bill provides that the maximum amount of money that a school corporation can authorize for an emergency loan to its school General or Transportation Fund, be computed based on the amount of money available in the school General or Transportation Fund rather than on the amount of property tax revenue

in the school General or Transportation Fund. It also makes other related and conforming changes.

Effective Date: May 1, 1999; July 1, 1999; January 1, 2000; July 1, 2000; March 1, 2001.

Explanation of State Expenditures:

SCHOOL GENERAL FUND

Under current law, the State pays property tax replacement credits (PTRC) in the amount of 20% of the school General Fund levies, with some exceptions. The state would no longer have a PTRC obligation on school General Fund levies under this proposal, beginning in CY 2000. PTRC on school General Fund levies is estimated at \$321 million in CY 2000 and \$334 million in CY 2001.

State homestead credits would also be reduced by the elimination of school General Fund levies. State homestead credit on school General Fund levies is estimated at \$62 million in CY 2000 and \$65 million in CY 2001.

The total reduction of state expenditures attributed to school General Funds under this proposal is projected at \$383 million in CY 2000 and \$399 million in CY 2001 or \$192 million in FY 2000 and \$391 million in FY 2001. Both PTRC and state homestead credit are paid from the Property Tax Replacement Fund which is annually supplemented by the General Fund.

Under the proposal, the General Assembly declares that sufficient tax revenues and distributions would be provided to school corporations each year beginning in CY 2000 so that each corporation would receive at least as much revenue as it did in the previous year. Based on the estimated CY 1999 statewide school General Fund gross levy, the minimum replacement revenue would amount to approximately \$1,546 million. This amount, reduced by the savings from the current PTRC and state homestead credit obligations results in a net guarantee of approximately \$1,179 million. For FY 2000, the net guarantee is estimated at \$589.5 million.

SCHOOL TRANSPORTATION FUND

Under current law, the State pays property tax replacement credits (PTRC) in the amount of 20% of the school Transportation Fund levies. The state would no longer have a PTRC obligation on school Transportation Fund levies under this proposal, beginning in CY 2000. PTRC on school Transportation Fund levies is estimated at \$65 million in CY 2000 and \$69 million in CY 2001.

State homestead credits would also be reduced by the elimination of school Transportation Fund levies. State homestead credit on school Transportation Fund levies is estimated at \$12.6 million in CY 2000 and \$13.5 million in CY 2001.

The total reduction of state expenditures attributed to school Transportation Funds under this proposal is projected at \$78 million in CY 2000 and \$83 million in CY 2001 or \$39 million in FY 2000 and \$80 million in FY 2001. Both PTRC and state homestead credit are paid from the Property Tax Replacement Fund which is annually supplemented by the State General Fund.

STATE GENERAL FUND SUMMARY TABLE

The following table illustrates a fiscal year projection of the potential net impact to the State General Fund regarding this bill.

State G.F. Potential Impact (millions)

	FY 2000	FY 2001
School G.F. Guarantee	\$773	\$1,546
State G.F. PTRC & Homestead Credit Expense	(\$192)	(\$391)
State Transportation Fund PTRC & Homestead Credit Expense	(\$39)	(\$80)
Net State G.F. Potential Expenditure	\$543	\$1,075

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill eliminates the property tax levy for school General Funds beginning in the year 2000. Statewide, school General Fund gross levies are estimated at \$1,607 M in CY 2000 and \$1,669 M in CY 2001.

It also eliminates the property tax levy for school Transportation Funds beginning in the year 2000. Statewide, school Transportation Fund gross levies are estimated at \$326 M in CY 2000 and \$347 M in CY 2001.

The bill also eliminates the County School Distribution Fund and the Supplemental School Operating Reserve Fund in Lake County and the County School Distribution Fund in Dearborn County. The levy for the Lake County School Distribution Fund amounted to \$3,570,119 in 1998 and the Dearborn County levy was \$560,033. Schools in these counties would lose this revenue under this provision. The Lake County Supplemental School Operating Reserve Fund is not currently in use.

Although this bill eliminates school General Fund levies for the general operation and maintenance of the school corporation, it would allow school corporations to continue to levy a property tax for certain public libraries, nursery schools, historical societies, art associations, public playgrounds, and the Indianapolis Children's Museum.

Beginning in the year 2000, school corporations that successfully appeal to the School Property Tax Control Board could receive emergency relief from the state in the form of grants, loans, authority to borrow money, advances, permission to use unobligated balances in a construction fund, or any combination of these items.

The total amount of reduced property tax levies under this proposal amounts to approximately \$1,937 million

in CY 2000 and \$2,020 million in CY 2001. However, the school General Fund guarantee mentioned in State Expenditures provides school General Fund dollars in some form at a minimum of previous year General Fund levels, estimated at \$1,546 million in CY 2000.

The net reduction of local school corporation revenue is estimated at \$391 million (\$1,937 - \$1,546).

COIT HOMESTEAD & CAGIT PROPERTY TAX REPLACEMENT CREDITS

Under current law, counties that impose the County Option Income Tax (COIT) may provide a locally funded homestead credit of up to an additional 8%. It is estimated that in CY 2000, school corporations will receive \$48 million in COIT homestead revenue to replace school General Fund and Transportation Fund levies. COIT revenue that is not used to supplement local homestead credit is distributed to counties, cities, and towns. Therefore, the \$48 million that school General and Transportation Funds will receive in CY 2000 under current law would instead be distributed to counties, cities, and towns as a result of this bill.

Under current law, counties that impose the County Adjusted Gross Income Tax (CAGIT) allocate local property tax replacement credits to civil taxing units and to school corporations. It is estimated that in CY 2000, school corporations will receive \$28 million in CAGIT revenue to replace school General and Transportation Fund levies. CAGIT revenue that is not used to replace school General and Transportation Fund levies is distributed to counties, cities, towns, and to other school funds. Therefore, the \$28 million that school General and Transportation Funds will receive in CY 2000 under current law would instead be distributed to counties, cities, towns, and to other school funds as a result of this bill.

Under this proposal, a tax increment financing (TIF) area would have the ability to place a special assessment on property in the allocation area if the elimination of the school General Fund property tax rate affects the TIF area's ability to repay obligations. The amount of the assessment would be limited to the difference between the total revenues available to pay the obligations and the total amount due on obligations entered into before May 2, 1999.

This bill provides an alternate method for calculating the amount of financial institution taxes and auto excise taxes to be distributed to school corporations after the elimination of the school General and Transportation Fund property taxes. The new calculation will ensure that the school General and Transportation Funds will continue to receive financial institution taxes and auto excise taxes in the same amounts as they do under current law. For CY 1997, school corporations received a total of \$182,769,760 in School General Fund financial institution and auto excise taxes, and \$38,191,082 in Transportation Fund financial institution and auto excise taxes.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: School Corporations.

Information Sources: Local Government and DOE SAS Databases.